TOGETHER, WE BUILD.

CK BIRLA GROUP

Ref: HIL/SE/2023-24/101

February 12, 2024

To
BSE Limited
P.J.Towers, Dalal Street
Mumbai – 400 001

Scrip Code: 509675

To
National Stock Exchange of India Limited
5th Floor, Exchange Plaza, Bandra (E),
Mumbai – 400 051

Scrip Symbol: HIL

Sub: Transcript of the Earnings Call held on February 6, 2024 on Financial Results for Q3 and 9M FY24

Ref: Regulation 30 of SEBI LODR Regulations, 2015

In continuation to our letter dated January 29, 2024 and February 6, 2024, please find enclosed transcript of earnings call held on Tuesday, February 6, 2024 on the Financial Results of the Company for the quarter and nine months ended December 31, 2023.

A copy of the said transcript is uploaded on the website of the Company www.hil.in

Kindly take the same on record.

Yours faithfully,

For HIL Limited

NIDHI BISARIA Digitally signed by NIDHI BISARIA Date: 2024.02.12 21:21:45 +05'30'

Nidhi Bisaria
Company Secretary & Compliance Officer
Membership No.5634

HIL Limited

Q3 & 9M FY24 Earnings Conference Call Transcript
February 06, 2024

Mit Shah

Thank you. Good morning, ladies and gentlemen and welcome to HIL Limited's Q3 & 9M FY24 Earnings Conference Call for Investors and Analysts.

Today, we have with us, Mr. Akshat Seth - Managing Director and CEO of the company and Mr. Ajay Kapadia - Chief Financial Officer. We will have Mr. Akshat making the open comments and he will be followed by Mr. Ajay, who will take you through the financial perspective.

Before we begin the call, I would like to point out that certain statements made on today's call could be forward-looking in nature and the details in this regard are available in the "Earnings Presentation" shared with you earlier.

I would like to invite Mr. Akshat to present his views on the performance and the strategic imperatives that lie ahead. Thank you and over to you, sir.

Akshat Seth

Thank you, Mit and a very good morning to everyone on today's call, warm welcome to HIL's Quarter 3 and Nine Months FY24 Earnings Call. Thank you for taking the time to join us today and I sincerely hope that all of you are doing well.

Today in this call, we will talk about the performance for the quarter gone by, reflect on the year gone by and also share a glimpse of the transformation agenda underway to chart out a phase of fast-paced value building growth.

Before I start, I will like to apologize in advance for my bad throat, the coughing and the bad throat is in no way a reflection of the sentiment with which we bring in these results. The sentiments are very positive and confident of what lies ahead for HIL.

In Quarter 3, HIL India witnessed the revenue growth of 7% year-on-year and 9.4% quarter-on-quarter, and we finished at a revenue of Rs. 509 crore with a PBT of Rs. 8 crore. In Parador, Q3 saw the first signs of turnaround and hence the quarter-on-quarter story is more pertinent. Parador revenue in rupee terms grew 6.7% quarter-on-quarter to Rs. 275 crore. The PBT loss, I am happy to report at Parador stood at Rs. 19 crore, which is down about 57% from the quarter 2 results.

Overall, our Quarter 3 performance reflects an early glimpse of the ongoing transformation at HIL across segments and geographies. This transformation is anchored around the agenda of growth, value enhancement, building stronger consumer brands and a modern aspirational workplace.

In India and at Parador, we have registered volume growth in most product segments. Strong efforts on sourcing, cost management and value enhancement initiatives have ensured improvement in profitability across the board, especially at the gross margin level. However, there have been headwinds in the shape of pricing pressure in India and the continued sluggishness in European market which has meant that the impact of these initiatives is not yet fully visible, but the first signs are there, and we will talk you through them.

The most significant milestone of this quarter is the positive operating profits at Parador. Sustained effort on sales, branding and new product launch in our core and new geographies has meant growth in volume about 10% on a quarter-on-quarter basis. We have gained market share in our core European markets and are also winning newer businesses in North America, China and Middle East, including with commercial clients. Order intake is outpacing turnover and that augurs well for the upcoming quarters.

The expected improvement in consumer sentiment in the Eurozone will further accelerate this turnaround. The revenue uptick is coupled with a positive margin story driven by a relentless push to manage costs across manpower, financing costs and so on and so forth to drive efficiencies and reduce working capital. Quarter-on-quarter as I said, PBT percent has improved by nearly 1,000 basis points. In coming quarters we would continue to push for sales uplift as the number one priority. Apart from the volumes, overall P&L is in a strong healthy trajectory. I will reiterate that these short-term turbulences aside, the mid to long-term prospects of Parador remain strong.

In our Pipes and Fitting segment, we have delivered our highest quarterly sales volume in this quarter while also delivering top quartile sales realizations. This has come on the back of our expanding distribution network and an expensive product portfolio. Our Pipes and Fittings realization at about Rs. 159 per kg, during this quarter, will rank amongst the top three in the industry and better than large players such as Prince, Supreme and Finolex. We have sustained a favorable 40% plus share of CPVC in our portfolio and that would also be amongst the best in the industry. Driven by value enhancing initiatives across material, supply chain, manpower and other costs, we are steadily increasing our profitability. It is 100% improvement on a year-on-year basis on that count.

Also, during the current quarter, we have received the prestigious GreenPro award for CPVC Pipes & Fittings, which puts us in an elite list of industry leaders. We believe PVC and CPVC prices have largely bottomed out and we expect a healthy market volume growth somewhere in the double digit zone in the months to come. In this market, we are confident of outpacing the other industry players as we have done in recent quarters. The focus for us in this segment is to aggressively grow scale through both organic and inorganic means and create significant shareholder value.

In Roofing Solutions, our brand Charminar has shown a volume growth of 1% and NSR growth of 5%. We are the clear market leaders with the 24% market share on a year-to-date basis and we command significant price premium over our peers. The strong brand equity of Charminar together with an unparalleled market reach are the strategic assets that drive this superior performance. We expect both volume and price growth in quarter 4, leading to a stronger margin performance. We will also be introducing some exciting new products in this segment to sustain our differentiated positioning.

In Building Solutions, we have seen a sharp volume growth for HIL. For instance, in blocks are volumes grew by 14% year-on-year. However, there were headwinds on pricing, which have led to a muted profitability this quarter. Birla Aerocon continues to be a truly premium brand due to its quality and continued efforts made by our technical sales team, which helps us command our price premium over competition. We are excited at the role we play in institution building for the nation with prestigious projects such as IIT Bhubaneshwar, the RBI Data Center in Orissa, the newly constructed Railway Station at Puri and scores of hospitals around the country. Further, we continue to scout for opportunities for both inorganic and organic capacity expansion to accelerate our growth trajectory.

The Putty business reported a strong growth of 10% in volume during this quarter, despite the reduction in prices driven by increased competitive intensity. Structural fine-tuning, including realignment of the sales team and geographical expansion has started yielding results and we expect strong growth coming in coming quarters as well. Efforts on recipe optimization and sourcing have meant profitability in Putty has improved significantly over last year.

Our Construction Chemicals business is on a strong growth trajectory with a year-on-year growth of over 100% and quarter-on-quarter growth of 20% plus. We continue to scale the business month-on-month and expand our product assortment and grow our footprint in newer geographies in South and East India. Overall, we expect Q4 to be the breakthrough period for this new business.

Before I conclude, I want to take a minute to give you all a sneak peek of what is happening behind the scenes at HIL, things that don't show up as headlines when we talk of financial performance, but things that enable this performance and will determine our success quarter after quarter. Last time, I had talked about how our agile teams focused on new product development efforts, institutional and government sales effort, net loss reduction and other such value initiatives. In this quarter, we have undertaken a comprehensive cost diagnostic and benchmarking exercise with an external partner to identify larger pools of value sitting within our P&L. In Q3, we also initiated the project to double the capacity of our Chennai blocks plant. The challenge for our cross functional team is to shave off 30% of execution time usually associated with such projects. Hence, we are confident that the full revenue impact of this expansion should be visible from Quarter 3 FY25 onwards.

Parador as a brand is known for being designed forward. Hence, the upcoming product launch of more than 150 new designs is a significant date in the calendar for flooring industry in Europe. It will be a big statement of intent from the brand and is expected to provide a strong boost to our sales efforts.

Let me now request our CFO, Ajay, to provide a detailed overview of our financial performance during the quarter and nine months and both of us will be available after that to answer any questions you may have. Thank you for your attention and time. Over to you, Ajay.

Ajay Kapadia Thank you, Akshat. Good morning and thank you all for joining today's call.

I would like to take this opportunity to present an overview of our Financial Performance and Operational Highlights for Quarter 3 and 9 months of the year.

In Quarter 3, HIL India has achieved 7% year-on-year growth in revenue to Rs. 509 crore as compared to Rs. 475 crore with positive volume growth in all business segments. The reported EBITDA for the quarter is Rs. 29 crore as against Rs. 48 crore in Quarter 3 last year. At this point, I would like to highlight that the last year EBITDA included Rs. 16 crore one-time reversal of provisions relating to inventory incentives and ESOPs. If we remove this impact, the profitability is largely in the same zone.

The Roofing Solutions business grew by 10% year-on-year to Rs. 227 crore in Quarter 3 FY24. Despite sluggish demand, we continue to grow in volume and thereby further strengthening our market leadership position in the quarter and continue to enjoy customer loyalty. PBT margin in Quarter 3 last year was higher on account of onetime reversals of inventory provisions of Rs. 10 crore. If we remove the one-time adjustment, the year-on-year profitability remains the same. Our margins in the segment are the highest amongst all roofing players by far.

The Building Solution business grew by 6% year-on-year to Rs. 138 crore in Quarter 3. Additions of new capacities in block business by competitors led to lower ASP in the market which has negatively impacted margins. However, we have been able to partially recover the negative impact by focusing on the development of alternate supply sources to keep our input cost lower. We are confident of getting double digit growth and better margins in the coming months.

The Polymer Solution business grew by 4% year-on-year with revenue of Rs. 144 crore during the quarter with better operating margins. We believe that we are in the right profitability zone in this segment and we will seek to further improve with a growing scale.

In Quarter 3, Parador sustained its volume and price compared to last quarter. The quarter-on-quarter volume grew by 10% and quarter-on-quarter revenue grew by 7% to Rs. 275 crore. We have for the first time reported quarterly positive EBITDA during the year. Our focus on working capital optimization continued during the quarter and inventories are at the lowest level.

Our debt at a consolidated level stood at Rs. 416 crore. The total debt to equity ratio stands at 0.33 as on 31st December. We are confident in our ability to grow our performance footprint and create healthy cash flows going forward.

I would like to conclude my opening remarks. Now, I request the moderator to open the floor for questions. Thank you.

Moderator Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Satish Kumar from InCred Capital. Please go ahead.

Satish Kumar I just have a question on Parador, whether the cost rationalization is now over and can we expect further cost decline or the cost will remain at the same level? And my second question will be what kind of run rate you are seeing right now in the sales in Parador?

Akshat Seth So, cost rationalization, a big chunk of work has been done and that is showing up in better margins for us. However, as a topic, it is a continuous improvement topic and we will continue pushing on it. The third angle is from a raw material perspective, we feel that now from an external point of view, the cost seems to have bottomed out. So, that is on the cost picture. On revenue, what we are witnessing and in recent months and the order book is essentially suggesting that we are in the zone of Euro 12 to Euro 14 million of sales per month. That is the absolute near-term outlook that is ahead of us.

Satish Kumar And another question I had, if you can permit me, then how the rural demand in India is looking right now, we were hearing a lot about the slowdown etc., how we are witnessing growth in this quarter, sales growth?

Akshat Seth So, what we have seen, at least in the post Diwali phase, there has been a certain level of hesitance as far as demand is concerned in the rural segment. Now, some of it can be attributed to transient factors. Typically post Diwali, there is a little bit of lull, there have been weather factors and so on and so forth. We are now watching. This is now the period, so February onwards is where the vibrancy is expected to come back, but you are right, the last two or three months including what we have seen in January have been a little on the hesitant and sluggish side.

Moderator Thank you. We have our next question from the line of Krisha Kansara from Molecule Ventures PMS. Please go ahead.

Krisha Kansara Before you mentioned that Parador has turned EBITDA positive in this quarter, could you please tell me the number, how much was the EBITDA for Parador in this quarter?

Ajay Kapadia It is Rs 1 crore Krisha.

Krisha Kansara Parador sales were down by 6% if we compare on Y-o-Y basis and there was only slightly up on a sequential basis, so if you could guide us on the reasons for such performance in Parador and along with the outlook on this Flooring segment going forward also, so how does the demand shaping up and how was it in the Q3 quarter?

Akshat Seth The 6.7% I mentioned in terms of volume growth is on a quarter-on-quarter basis. The context is important because the last 12 months in the Eurozone have been a difficult period from a demand perspective. Why this quarter is significant because this is the first time we have seen a positive trajectory and I can speak from a Parador perspective of all, at an aggregate level this quarter we have sold more volumes than in the previous quarter. Again, even if we compare 3 out of the 4 key product categories that we deal in even compared to last year, there has been a slight volume growth. The one segment which continues to be in the sluggish zone is Engineered Wood, which accounts for roughly a quarter of our overall portfolio. What we are looking ahead to the general consensus seems to be that as far as the demand and market outlook is concerned, we seem to be at the bottom end. Everyone believes that we have seen the bottom now. How fast the recovery happens is something that we will all have to wait and watch. There are some positive signs. The inflation is at its lowest and that should signal a softening regime on the interest rate side and what we have seen in our sales for last quarter which is higher volume increase and also a more robust order intake and order book seems to indicate that we are moving in a positive trajectory. We would of course want greater momentum around it, but it is on an improving trend.

Krisha Kansara And sir, volume growth you mentioned 6.7%, correct?

Akshat Seth Volume growth is, I mentioned 6.7 on quarter-on-quarter basis.

Krisha Kansara And sir, next question is on the Construction Chemical side, so how much sales did we do in this segment in this quarter and also for the 9 months of FY24?

Akshat Seth I am just getting the numbers. So, overall for us it is Putty and Construction Chemical put together for this quarter, the number is Ajay.

Ajay Kapadia It is Rs. 56 crore for the quarter.

Krisha Kansara And for 9 months?

Ajay Kapadia Rs. 145 crore.

Krisha Kansara And sir, one last question and sir, do we still maintain our guidance for FY26 regarding the margin which is 12% EBITDA level, is there any change in that guidance?

Akshat Seth There is no change in the guidance. That is the aspiration with which we are moving towards and a slew of initiatives and early wins give us confidence that we are on track towards that guidance.

Moderator Thank you. We have a next question from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi Sir, I wanted to understand, in our Building product division, the AAC blocks, last quarter, we guided that our margins were down because of strike at our Chennai plant, but constantly when we look at the longer-term perspective our margins have underperformed our competitor, so why is that and what are we trying to do to make sure that our margins grow par like you have guided 10-11% margin, but still I am not, if you could provide me some guidance on that?

Akshat Seth So, in Building Solutions, this quarter, the margins have been softer primarily because of pricing pressure we have seen in the market. You would recall that this quarter especially the November to December period, there have been several factors that have played out. There have been construction bans in various parts of the country. There have been weather related disruptions as well. And there has been some additional capacity that has come to the market leading to greater competition and as a result, price realization is where the margins have been impacted. As we now enter from a construction point of view, a better part of the year, which is February onwards, we expect those pricing to start resuming the normal trajectory and we get to a better margin profile, but all of the margin pressure in Building Solutions is largely due to the pricing related factors in the market.

Mathur Rathi Sir, but when I look at our competitor, they are constantly being around 20% odd of margin, so is it because in the Western region there is a lower competition or is there something else that is affecting our margins in that segment?

Akshat Seth I think there are very few like to like competitors. For instance, there are players who for us Building Solutions is a combination of Block, Panels and Boards and that blended percentage comes in. Second, there are players who are largely regional in nature. We are a national player. So, somewhere we are exposed to different price points and cost structure across various parts of the country. But that said apart from pricing, there are a few things that we are working on internally which gives us some line of sight of nearly 200 to 300 basis point improvement on the margin in the short to medium term, but those are improvement initiatives that are being undertaken.

Mathur Rathi And sir, when can we see these improvements reflecting in our financials? So, when will we see this margin improvement in our Building product?

Akshat Seth So, it should start playing out in the next 2-3 quarters. So, this quarter 4, we are watching from a pricing perspective, some of the structural things that we are working on internally will take a couple of quarters to start playing out and become visible. So, my sense is Q1 to Q2 next financial year is when this should become visible.

Moderator Thank you. We have our next question from the line of Bhavnish Kumar from Vivek Art. Please go ahead.

Bhavnish Kumar First of all I would like to congratulate and appreciate that HIL puts a brave face every time we are on a concall. I just had two feedbacks and one question for you. The feedback is like, as you mentioned the market share of Charminar sheets in the presentation, I would appreciate it if you could give the market share for other products also in the presentation.

Akshat Seth Okay.

Bhavnish Kumar Secondly, we give the revenue wise, I mean we give there in rupee terms, but if you could also mention the volume terms that would be easier for investors to compare the performance Q-on-Q and Y-on-Y because the prices keep on fluctuating, so it is not right to compare the revenue year-on-year and quarter-on-quarter. The volume would be a better parameter.

Akshat Seth Understood.

Bhavnish Kumar My question is that like we had given a guidance of $1 billion enterprise by FY26 and also some EBITDA margins, are we still on track for that because as of now it would be difficult to achieve even half a billion dollars of revenue in this financial year, so doubling from here in two years. I just wanted your views on this.

Akshat Seth So, I think the aspiration was for around FY26-27, but whatever, we as it may what we are targeting and there is a clear breakdown internally for us as to how will we get there, but we are targeting to be double in 3 years, so in the next 3 years, that is where. So, the guidance and the aspiration remain there. There is no change in that one. There will be a few things that will sort of be shared with all of you in the coming months. That will also give you a line of sight of some of these things as you can appreciate, some of them are currently under work and you will get greater confidence in the months to come.

Bhavnish Kumar And just one more question Akshat, is it possible that we can separate our Parador and Indian division because of Parador we are not able to see the value of Indian division?

Akshat Seth I think the alternative is something that we should also consider, which is let us wait out and you will also see a scenario where the Parador division is punching above its weight in the overall value creation of HIL. We are confident of it. We will request maybe just a little bit of patience around it. As I have said in my previous calls that picture maybe is about 12 to 18 months away, but you will start seeing signs of that. And I am also not trying to paint a picture which has not been done in the past. We have had of the 4 or 5 years that we have held onto Parador a significant overlap was that with COVID we have had 2 or 3 blockbuster years where Parador has contributed handsomely to the HIL story. So, let us not think of separating the two, let us think of how synergies can be built and how we can make it a powerful combination. That is at least how we are focused on.

Bhavnish Kumar Great to see the confidence, Akshat. Thank you so much. I was a worried investor, but I am a loyal investor. I would still invest it. Thank you so much.

Akshat Seth Bhavnish, I know you have been a loyal investor for a long time. All I can say is don't be worried. Keep us honest, but there is no reason to be worried. These are cycles and we will navigate past the cycle. Hopefully, the last 12 months also give you the confidence that we are trying to navigate what is not easy situation with great amount of rigor and diligence. So, that will continue and that should give you more confidence and anxiety.

Moderator Thank you. We have a next question from the line of Deven from Marcellus. Please go ahead.

Deven Just two questions, first on the Roofing Solutions, so if I see on the historical perspective, 2 years back, the margins were in double digits, but now in this quarter, we are seeing at the single digit margin, so any reason for such low margins in Roofing?

Akshat Seth I think in Roofing what will help is if you look at the YTD picture because there are seasonality involved in this product. At an YTD level compared to the peaks we may be 2% to 4% off from the peak margin level. As I have explained in the past, there was a cycle of cost increase outpacing the price increase. The extent of that cost increase was about 5 to 6% on a P&L basis. We have recovered nearly 3.5% of that. The remaining 1.5% is expected to be recovered by the time we hit the next season, which is Q1 of FY25. So, the expectation is that we should resume the normal trajectory in the next couple of quarters.

Deven So, by normally using double digit margins that you have seen historically?

Akshat Seth Yes.

Deven And are you seeing any pricing pressures specifically in last two quarters in terms of realizations?

Akshat Seth Sorry, is the question that are there margin pressures in Roofing?

Deven Yes.

Akshat Seth So, margin pressure usually comes from two sources. One inputs, I would say on the input side there is relative predictability and stability. So, there is no surprise expected on that nor has it played out in the last 6-9 months. It is on the pricing side where we would want greater traction and somewhere as I was alluding previously, the slight hesitance in rural market demand in the last 2-3 months has been a headwind. We expect that to recover and greater ability of the market to absorb higher prices. That is where the expectation is. So, the margin pressure is essentially in the short run-on pricing, not from an input cost perspective.

Deven And if you could throw some light on the Building Solutions margins as well, which have reduced on a Y-o-Y basis, what could be the reason for that? And if you could just further breakdown into the Blocks as well as the Boards and Panels?

Akshat Seth So, as I said on Building Solutions compared to our previous peak performance, the only delta is on pricing and we have experienced in this quarter some headwinds on the pricing side as far as especially on Blocks side, which is why the margins are lower. At the operating level, we are looking at about 8% odd which is off by about 3 to 4% from the peak that we have experienced and that 3 to 4% is largely attributable to the NSR pricing.

Deven And finally on the revenue front, if you could break down the growth in Building Solutions between AAC blocks and the Boards and Panels, like how much volume growth did we get in both these product categories in Building Solutions?

Akshat Seth So, Building Solutions, the highest growth was in Blocks for this quarter, which was nearing the 15% mark. I mentioned 14.5% earlier in my opening remarks. On Panels we have grown at about 4 to 5% and on Boards we are largely flat.

Moderator Thank you. We have a next question from the line of Nikhil Gada from Abakkus AMC. Please go ahead.

Nikhil Gada Sir, my first question is on the Roofing part, just to the previous participants question regarding margins, now when you say that the gap is around 1-2% and which should be sort of mitigated if the demand improves, but still when we look at Roofing, which has been our bread and butter business, the margins have seen a very sharp decline over the last two years from 20-21% margins we are now maybe, we will close around 12-13% in FY24, so is there a glide path or do you see this sort of quickly going back to those 18-20% levels in the next couple of years? Otherwise, the overall guidance which you are talking about of 12% EBITDA margin looks a bit sort of difficult to achieve.

Akshat Seth See from our FY23, the margin was around 15%. We are looking to close this year at around 12 to 13% level. And that is the 2% odd that I am talking about, 2 to 3%, part of it is also there is, anyways let me not, a 2% price increase will help us bridge this gap and that is the long and short of that story. What we are also pushing for is greater volumes in the market, so that will also help offset. We are reasonably confident that we will at least resume the FY23 trajectory quickly. Now, with that the 12% plus guidance that we have for HIL overall it is not just Roofing, but other segments will also have to contribute handsomely. Building Solution has to be in that zone. Polymer as we are scaling up will also start hitting that zone. That is when we will hit it. If only Roofing has to pull that weight, it will not reach that level. Including Parador will have to start hitting double digit numbers. There is reasonable confidence in the system that we will hit it, there is line of sight. In each one of them, the glide path is available for us internally. So, the story of that 12% plus margin will have to be a contribution from each of the segments. It cannot be just one.

Nikhil Gada But for us to achieve that 12%, in terms of calculation, if you can give us a back of envelope calculation, what would be Roofing in that it, should it be 18%, should it be 15% is good enough if we achieve margins of 15% Roofing, still we will be able to achieve 12% margin?

Akshat Seth I would say at a baseline if we achieve 15% or so in Roofing and the others pull their weight in the desired direction, then we should be okay. So, in our own internal calculations, the blended of 12% plus assumes Roofing at about 15%.

Nikhil Gada Secondly, in Parador, so you mentioned, sorry, I might be wrong if I have heard it correctly or not. You mentioned that the monthly run rate is around 12 to 14 million Euros, does that mean that we are looking at Rs. 340-Rs. 350 crore sort of sales in fourth quarter FY24 in Parador?

Akshat Seth We would look at In the zone of about Rs. 315 and Rs. 325 crore.

Nikhil Gada And in that case, what kind of margins can we achieve? Is it around 5-7% margins that we believe that we will be able to achieve?

Akshat Seth At an operating margin level, that should be the range. At the moment in Quarter 3, we were just about EBITDA positive. We should be comfortably EBITDA positive at that range. My sense is it should be in the 3% to 4% range.

Nikhil Gada And just on the Parador piece itself, you mentioned that we are also gaining market share in the European markets as well, but in terms of the overall outlook of demand from Europe, do you think that the worst is behind or do we see any green shoots per se from there because whatever you still heard about Germany and all the markets continue to remain very weak over there?

Akshat Seth So, several parts to your question. Have we seen the worst and have we left the worst behind us? That answer is fairly consistent and unanimous that yes, that seems to be the indication. Second, are we seeing some green shoots, at least in our business? We are, the fact that for the first time this year, there is volume growth, is a green shoot. The fact that 3 out of our 4 product categories have done better than the previous year also in this quarter, is a green shoot. The fact that our order book is consistent for the last 3-4 months clocking at a higher clip than our revenue in that month, is a green shoot. At a macroeconomic level, the bottoming out of the inflation rate is a positive trend. The fact that interest rates have not been increased is a good trend. The fact that people are talking about a drop in interest rate is again a good trend. And let me offer a slight contrarian view and there are now analysts who are talking about this that Europe might actually surprise us in this calendar year. And there are a few factors that are contributing to it, one, unlike US, where a lot of the subsidies that were given out last two or three years wherein US people actually went and spent that money; in Europe, people have saved that money, so the savings rate is actually much higher. Second, the impact of high interest rates has actually been absorbed in Europe and it was done in a hard manner over the last 12-18 months and that again is a positive sign. So, if you look at some recent analysts, including I think there was something released by Ruchir Sharma, they talk about Europe positively surprising us. Now that of course remains to be seen, but I am just saying that if that plays out, that is a big tailwind for us.

Nikhil Gada Just one last question on the Polymer side of the business, firstly, I think you gave the numbers for Construction Chemicals and Putty in revenue, can we get the same for the EBIT as well?

Akshat Seth We are not reporting that separately.

Nikhil Gada The loss if you can share in construction chemicals, what was the loss?

Akshat Seth I think we are largely breakeven in Construction Chemical. So, there is no loss at the current levels.

Nikhil Gada And just on the Polymer part of the business as well, so we sort of mentioned the growth that we are seeing in Pipes business, can you sort of share what are the, I think you mentioned also about the branding initiatives as well, so if you can sort of give a view for the next couple of years, how do you want to scale this business up and what are the initiatives that you are taking for making this sort of a Pan India player?

Akshat Seth So, the initiatives have to be done in a 360-degree manner. First step, what is really the aspiration and in that sorry, I think we were asked about the billion dollars we. The effort that we are and the ambition is important through state, because that will also put in perspective the kind of efforts we are putting in. We are aspiring to be four to five times larger than what we currently are. Now, in order to do that, first there has to be a strong effort on demand generation and brand build side. And that work is underway in not 3 months, but in 6 month's time you will start seeing a lot of that and this is being done both from a Polymer side perspective, but also at an overall HIL level.

There is a big brand strategy work that we are doing and you will see renewed momentum around marketing activities. That is point one. On the sales side, there is extensive effort being done to increase the addressable market. First, in the retail trade channel that we play in, we are growing into new geographies and growing deeper into the existing geographies. So, there is effort around growing the penetration on the retail trade side. On the B2B side, as HIL have strength in our Building Solutions and other segments, those are being cross leveraged. So, B2B there is renewed focus. Third institutional and government sales is something that we had not done. We are opening that up as a new channel. The idea really is that we should be relevant in all those three channels.

The third angle on this growth story is the product angle where we need to expand further the product categories that we are in, and that product category expansion has to pass through two filters. One is scalability and where volumes are available, second also look at niches which are more profitable.

And again, I will urge each one of you to keep a watch on announcements from our side on the new product launches in the next 6 to 9 months and you will see a complete gear shift on that front.

The fourth is then our own manufacturing capacity and the quality of products that we are coming out. There is a significant effort out there and as we scale up, we will have to meet the capacity demand also. So, there will be investments on that front as well. So, it is a multipronged approach. It is that we are small, but we are aiming to be much bigger and there is a huge amount of organizational effort that is going in that direction. What I would also like to assure and give confidence to this group is that Pipes and Fittings will remain as one of the key anchors of growth as we chart out the next 3 to 4 years journey for HIL.

Moderator Thank you. We have our next question from the line of Nikhil from SIMPL. Please go ahead.

Nikhil Two questions. One is on Parador. Even this quarter number if we look at, it looks like we did Rs. 275 crores of sales. This is YoY lower by around 6%. And if I add, there are two aspects. One was the existing DIY retail market where we were already present and the new initiatives on the commercial and the new geographies. So, if I do a rough calculation it looks like the market in DIY is still down something like 20-25%. Would that be right. If we have to say the revenue from new initiatives and from the existing geographies, how does this split up?

Akshat Seth I am not able to follow how did you arrive at?

Nikhil What I am trying to understand is that out of this Rs. 275 crore, the new initiatives which we started in last one year in terms of new geographies, commercial and all, how much of it revenue contribution has already done and the markets where you are already present is the market still down by 15-20%?

Akshat Seth So, let me explain. One, your question on how the volume growth reconciles with the drop from last year on the revenue side and one key element there is the product mix. As I said, Engineered Wood is still tracking lower volumes and that is the highest realization; may not be the highest margin, but highest realization product and that is why there is a mismatch between the two.

To your question on these new initiatives and these new initiatives can be broadly under 2 categories, the new channel focus which is on commercial and the second is on the new geographies of North America, Middle East and China, now if you understandably, these geographies were at a much lower pace, but they have done almost two to three times what we used to do previously in these geographies. So, that is the early wins in that market. On commercial, we have done better, but as you can imagine, commercial also takes a little bit of gestation time for it, so while the pipeline is strong and pipelines have started converting in places like Middle East, has it fundamentally altered the revenue profile just yet? The answer is no. So, a lot of the recovery that we see actually comes from the Central European markets and the DIY channels, etc., have also started coming back. So, in short, the new geographies are commercially tracking ahead of plan, these together will still be only about 15-20% of the total portfolio.

Nikhil So, the commercial new geographies, all these new initiatives should start contributing at least by first Q of FY25?

Akshat Seth They are contributing even as we speak, the share of these in the overall portfolio is steadily increasing.

Nikhil And secondly, question on the 12% EBIT margin, you mentioned that we are doing multiple efforts and I think we are walking the talk on that, but see on a contrarian view, if we look at it, many of these things like Building Solution pricing or Polymer pricing, these have impacted us on and off. How much of that 12% margin achievement will be driven by internal factor and how much of it is dependent upon that the external environment has to play favorable for us to achieve that margin aspiration?

Akshat Seth If you ask us from an aspiration point of view, the aspiration is that when we state that ambition, it is not dependent on what happens in the marketplace. It should be independent and if the market forces are favorable, then we only do better. And there are a few things that are being done in that regard. First, the effort around brand build, marketing essentially to ensure that places where we have a price premium, we sort of maintain that. Again, there is effort on new product development which will give us differentiators to play within the market and also on margin front, preimmunizing the portfolio that we have. These are things which will give us an insulation from a lot of the market-related volatilities that are inevitable in the segments that we play in. So, the aspiration on margin that we stated is not contingent on one great year where everything is falling nicely from a market perspective and we hit that number, but it should be the baseline around which we operate. So, I will give an example. You mentioned Pipes, Pipes despite the ups and downs on the resin price margins, now we seem to have had a good handle for four straight quarters. Our margins are actually in a robust zone when I look at contribution margins and gross margins, but the choice of new product segment that we will get into will give us greater insulation on the margin side.

Nikhil And last question, in Roofing, if I compare the performance, we have grown year-on-year, so around Rs. 15-Rs. 16 crore of additional absolute sales wise growth. In last 2-3 quarters, you have been mentioning that the RM cost inflation was very high and we were catching up on the pricing and this quarter, we said about 5% was the price growth, but still on the margin side, we are at 7% and if I compare it, the quantum of sales and look at in 2020 or 21, even at this quantum of sales are margins were actually much higher than this 7%. So, how are you looking at the margin profile improvement here because one thing you also mentioned that the RM is now stable. So, the new contracts would, probably there is not much price escalation and the pricing gap in RM inflation is also around 1% now. But the margins are still on the lower end. So, what has to play out for us to achieve that 12-15% margin?

Akshat Seth Maybe also Nikhil take this offline and get into a more detailed discussion on how these calculations work, but let me at least say that in Roofing, to look at quarter-on-quarter margin, so in this quarter you are looking at about 7% odd is probably not the right way of looking at it. At an YTD level and at a full year level is where the comparison should be. Even at the current trajectory, if I take the full year last year, we were at about 15% margin. We hope to complete this year at about 12.5%. So, addition quarter-on-quarter on an YTD or a cumulative basis is an important exercise to be done. What will get us? At this moment the only thing I can say is pricing. There is nothing else that is left there. From a cost perspective, from a raw material perspective, we feel we are 100% optimized. We also feel from a comparative point of view, when you look at other players in the industry. We are already clocking much better than any of our peers. And you will have numbers to sort of corroborate that. The good part is of the 5 to 6% impact that happened because of that price escalation, we seem to have recovered about 3.5%. It is now down to that last 1.5 to 2%.

I will make one last statement on this. You started off by volume growth and so on. This volume growth this year that we have registered is actually in the context of what we believe is the industry degrowth this year. So, at an aggregate level, that is why we have ended up increasing our market share. To somewhere the single digit volume growth has to be seen in the context of a single digit industry degrowth that has happened for this category.

Moderator Thank you. We have a next question from the line of Kushal Kapoor, an Individual Investor. Please go ahead.

Kushal Kapoor My first question is in the Building Solutions segment, what is the contribution, what is the product which is dragging the profitability of the Building Solution segment, is it Panels or AAC Blocks? And the second question is regarding the capacity utilization of AAC Blocks right now?

Akshat Seth The capacity utilization let me answer across our Building Solution category is in the zone of 90% plus across the three lines that we run. So, that is one capacity. Your first question was which is the lowest profitability, or can you repeat the first part of the question, please?

Kushal Kapoor Dragging on the profitability in the Building Solution segment, What segment is it? Is it Boards or is it Panels or is it AAC Blocks? And what are the margins we are currently enjoying in the AAC blocks at the moment?

Ajay Kapadia Kushal, the contribution margin which we see in Building Solutions segment, it is lowest right now is in Blocks business. Panels and boards are quite a healthy margin.

Kushal Kapoor Like exactly, what is the margin in the AAC look like? I think the last quarter it was somewhere around 8% to 10% if I am not wrong in the AAC Blocks? Is it somewhere in the same range or is it bit lower than that as well, right now?

Ajay Kapadia It is in the same range.

Moderator Thank you. We have our next question from the line of Sanjay Kumar from iThought PMS. Please go ahead.

Sanjay Kumar Few questions on Parador, can you give the cost structure for this quarter, say gross margin, employee cost, and other cost?

Akshat Seth For this quarter, so at a gross margin level, so material cost is now at about 55%, so material cost for this quarter is 59%.

Sanjay Kumar 59% in India, all gross margins?

Akshat Seth No, sorry, we are talking Parador, so it is not.

Ajay Kapadia Parador is 55% material.

Sanjay Kumar Employee costs and other costs?

Ajay Kapadia Employee cost in Parador for the quarter is around Rs. 67 crore whereas other expenses are in the range of Rs. 59 crore.

Sanjay Kumar And Akshat, we had spoken about 2.5 million USD cost savings, is all of it done or is anything more left in Parador?

Akshat Seth It is on track. Those initiatives, I think we have now realized the big chunk of it and by the time we finish this financial year, we are on track to realize it completely.

Sanjay Kumar And why is the employee cost so high, historically it was 18-19%, now it is higher because of lower sales, any levers to reduce the sale automation or is the process, batch oriented which results in this high employee cost or are you looking to ship to a low-cost geography?

Akshat Seth So, there are two parts to it, the cost which is related to blue collared workers, there it is basically matching with how the volumes are going up or down. So, that bit is largely variabilized in nature and we are taking proactive measures every month to either bring it up, bring it down in line with what the demand profile is. On the non-worker side, there have been some investments we have done and those are obviously by nature you would agree, come ahead of actual revenue impact. These are largely on sales and promotion side. As we cultivate these new markets, there have been some new resources that have been brought into start pushing volumes in that. The impact of that and at this moment, because we are probably at our lowest from our revenue point of view, these percentages do not look flattering, but as revenue picks up, these numbers will fall in the right orbit. So, are we looking to reduce it? No. Are we at a stable state? Yes. These resources will start becoming productive in weeks and months to come. They are already productive. You will see a bigger impact of that.

Sanjay Kumar And just lastly, so at Rs. 400 crore quarterly run rate, can we do 10% EBITDA margin or double digit EBITDA margins?

Akshat Seth At Rs. 400 crore, yes.

Moderator Thank you. The next question is from the line of Harsheel Mehta from Mehta Vakil and Company. Please go ahead.

Harsheel Mehta Most of my questions have been answered. I just had one question regarding the commercial order pipeline at Parador, in one of our earlier calls which said it was around Euro 85 million, so has there been any increase to this number? What would the figure be at current year?

Akshat Seth So, the current pipeline and qualified pipeline will look to be in the same tune as Euro 85 million number. This of course keeps into account that there have been a few conversions that have happened at least to the tune of 8 to 10 that we have already seen, and some would have dropped off. So, this is like a constant addition deletion that happens from the pipeline, but the current pipeline would be of that order of magnitude.

Moderator Thank you. We have our next question from the line of Jagdish Sharma, an Individual Investor. Please go ahead.

Jagdish Sharma So, asbestos raw material prices have inched upwards after Russia-Ukraine war, how are they behaving now and is there a scope for reducing those prices?

Akshat Seth If there a scope none that is visible to us. They are now in a zone where there are the usual inflationary adjustments. There is no volatility or sharp spike that is expected on that. Then one of the things that we constantly watch out for, one is of course the source cost, then there is the shipping cost and you would be aware that in recent months there has been some volatility around shipping with the Suez canal issue etc. Those are things that we continue to watch, but I will also assure that the recent developments have had, we have managed that situation well, so there has been no P&L impact of that, but these are risks that we continue to watch out for.

Jagdish Sharma So, when do you think it will come down? It is like any visibility you are saying like in two quarters or three quarters, visibility you are saying?

Akshat Seth At the moment cost coming down, there is no such visibility. There is no such outlook as well.

Jagdish Sharma So, one last question, sir, what did the EBITDA margin for this Asbestos business, it just means revert back to its own average like what is the EBITDA margin you expect?

Akshat Seth Before I share the number, I do want to make a small correction. We are not in the business of asbestos. It is not the asbestos business for us. For us we are in the Roofing Business and Roofing Business for us at EBITDA level, does anywhere between 15 to 16% margin.

Moderator Thank you. We will take our last question from the line of Deven from Marcellus. Please go ahead.

Deven Sir, just a follow up question on the boards and panels, you have mentioned that we had a single digit volume growth in this quarter, just wanted to understand what was the reason for this low growth? And overall more long-term perspective, 3 to 5 years, what are our volume growth expectations for this segment?

Akshat Seth So, again, important to keep the context in mind, in boards and panels, we are running at near full capacity. The next wave of growth in volumes from a sales perspective will essentially come with some capacity addition that will come. In panels, we have some line of sight. Our new plant at Balasore, the phase 2 of its ramp up will happen in the coming financial year. So, that should give a little bit of step up. Over the next 2-3 years, in boards there are conversations of putting up additional capacity, so that will also bring some additional volumes. So, here the volume increase will essentially be a consequence of capacity addition and there are plans to do that in the next 2–3-year time horizon that we talk about.

Deven So, I understand that there is no demand side issue in this segment, so what is stopping us from ramping up capacities rapidly?

Akshat Seth Overall, I think we as a company, there will be capital allocation. We have already spoken about the two big areas of Pipes and Fittings where we are investing Construction Chemical, Putty where we are investing, and Blocks where we are investing. Panels and boards will probably come in that order, so we also want to remain focused in where we are growing rather than fighting on all the vendors.

Moderator Thank you. I now hand over the call to the management for closing comments. Over to you, sir.

Akshat Seth Thank you and a big thanks to all of you for joining me in. As always, it has been a pleasure interacting with all of you and your interest, your questions are extremely encouraging for us. We will request that you please continue your support and guidance for HIL as a company and keep following this space. There will be a lot of action and a lot of updates that we will keep coming back to you. Meanwhile, if you have questions, please reach out to our Investor Relations desk. Thank you so much.

Moderator Thank you. On behalf of HIL Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
